

Message Text

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C O N F I D E N T I A L SECTION 1 OF 2 PANAMA 7116

LIMDIS

S/S-O PASS TO MR. KOREN DUSA FOR APPROPRIATE DOD DISTRIBUTION

FROM WYROUGH FOR BELL ARA/PAN

EO 11652: GDS

TAGS: PN PFOR PQ

SUBJ: CANAL TREATY NEGOTIATIONS: DRAFT U.S. POSITION PAPER ON
COMPENSATION

WITH GOVERNOR PARKER'S CONCURRENCE THE SUPPORT GROUP APPROVED ON
DECEMBER 12 FOR SUBMISSION TO THE U.S. NEGOTIATORS AND SUBSEQUENT
WASHINGTON LEVEL COORDINATION THE FOLLOWING REVISED DRAFT POSITION
PAPER ON COMPENSATION. COL. WALTON AND I WILL MEET WITH GENERAL
FLEMING THIS AFTERNOON AT WHICH TIME WE WILL DISCUSS SOUTHCOM
VIEWS.

I. THE COMPENSATION PACKAGE TO PRESENT TO THE GOVERNMENT OF
PANAMA WILL CONSIST OF:

A. A BASIC ANNUITY FOR THE TREATY'S LIFE OF A VARIABLE AMOUNT
ESTIMATED INITIALLY AT APPROXIMATELY \$50 MILLION PER YEAR. ALL
AMOUNTS AND PERCENTAGES IN THIS PAPER ARE UNREFINED ESTIMATES.

1. SOURCE OF FUNDS. REVENUES FROM CANAL OPERATIONS DERIVED
BY A FORMULA BASED ON TONNAGE TRANSITING THE CANAL.

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2. THE FORMULA WOULD:

PROVIDE PANAMA 35 CENTS PER PANAMA CANAL NET TON TRANSITING THE CANAL (INCLUDES DISPLACEMENT TONNAGE CONVERTED TO PC TONS AT .555).

--TAKE INTO CONSIDERATION PANAMA'S UNIQUE GEOGRAPHIC LOCATION AND TIES PANAMA'S BENEFITS TO THE USE OF ITS PRINCIPAL NATURAL RESOURCE; I.E., AS THE USE OF THE RESOURCE INCREASES (TONNAGE INCREASES), PANAMA'S BENEFITS (THE ANNUITY) WILL INCREASE.

--PROVIDE PANAMA WITH BENEFITS SUBSTANTIALLY LARGER THAN THOSE IN EARLIER NEGOTIATIONS (IN ACCORDANCE WITH CURRENT PRESIDENTIAL GUIDANCE).

--OFFER TO PANAMA A FLEXIBLE COMPENSATION CONCEPT BY NOT PLACING A CEILING ON THE AMOUNT OF PANAMANIAN BENEFITS.

--CONTEMPLATE NECESSARY ADJUSTMENT SHOULD THE "UNIVERSAL MEASUREMENT SYSTEM" ENTER INTO EFFECT.

3. IMPLICATIONS:

--IN ORDER TO FINANCE THE ANNUITY PAYMENT WHOLLY FROM CANAL TOLLS REVENUES, A TOLL INCREASE IN THE AMOUNT OF SOME 32 PERCENT WOULD BE REQUIRED (35 CENTS/TON ABOVE THE CURRENT \$1.08 CHARGE FOR LADEN VESSELS AND PROPORTIONATELY LESS FOR VESSELS IN BALLAST AND THOSE MEASURED ON A DISPLACEMENT BASIS).

--THE ABOVE PROJECTED TOLL INCREASE IS EXPECTED TO HAVE ONLY A SLIGHT EFFECT ON TRAFFIC VOLUME AND WOULD NOT ADVERSELY AFFECT REVENUES.

--THE PANAMA CANAL COMPANY ESTIMATES THAT REGARDLESS OF TREATY DEVELOPMENTS, TOLLS WILL PROBABLY HAVE TO BE INCREASED TO OBTAIN SOME \$22 MILLION TO COVER LOSS OF TRAFFIC TO A REOPENED SUEZ AND DEPRECIATION RELATED TO ADDITIONAL CAPITAL PROGRAM REQUIREMENTS. THIS TOGETHER WITH COSTS RELATED TO THE TREATY (NET IMPACT OF SHED ACTIVITIES, AN INCREASE IN THE COMPANY'S GUARD FORCE, AND INCREASED EMPLOYEE COMPENSATION) WILL PROBABLY REQUIRE INCREASED TOLL REVENUES OF SOME \$70 MILLION ANNUALLY OR ABOUT 50 PERCENT ABOVE CURRENT RATES IN ORDER FOR THE COMPANY TO RECOVER ITS TOTAL INCREASED COSTS. THIS LEVEL OF TOLLS INCREASE DOES NOT TAKE INTO CONSIDERATION ANY TOLLS SENSITIVITY. INTERNATIONAL RESEARCH ASSOCIATES HAS AGREED TO UPDATE BY EARLY JANUARY ITS TOLLS SENSITIVITY STUDY IN ORDER TO ESTIMATE THE EFFECT ON TRAFFIC VOLUME AND REVENUE OF A TOLLS INCREASE OF THIS MAGNITUDE.

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-TOLLS INCREASE OF ANY SIZE MAY PROVOKE SHIPPERS TO LOBBY STRONGLY AGAINST TREATY.

B. A DEVELOPMENT OF TRANSITION FUND AVERAGING ABOUT \$5 - 10 MILLION PER YEAR FOR 3 YEARS TO ASSIST PANAMA IN THE TRANSFER, INTEGRATION, AND RATIONAL DEVELOPMENT OF THE LANDS AND FACILITIES WHICH PANAMA WILL RECEIVE.

1. SOURCE OF FUNDS. CONGRESSIONAL APPROPRIATIONS.

2. THE FUND WOULD:

- BE ADMINISTERED THROUGH ARRANGEMENTS SIMILAR TO THOSE NOW USED FOR THE U.S. DEVELOPMENT ASSISTANCE PROGRAM IN PANAMA. (A REPRESENTATIVE OF THE CANAL ENTITY WOULD SIT ON THE COMMITTEES WHICH WOULD REVIEW THE DEVELOPMENT ASSISTANCE PROPOSALS.)
- BE SEPARATE FROM THE BASIC ANNUITY.
- AID PANAMA IN ITS TRANSITION COSTS, SUCH AS RELOCATION OF SOME FACILITIES, ADAPTING SOME FACILITIES FOR PANAMA'S USE, PROVIDING FUNDS FOR USE IN PREPARING LOAN PROPOSALS TO THE INTERNATIONAL LENDING INSTITUTIONS (WORLD BANKS, IDB) FOR MAJOR PROJECTS.
- USE CONGRESSIONAL APPROPRIATIONS IN PREFERENCE TO OTHER SOURCES OF INCOME SINCE RELIANCE ON CANAL FUNDS WOULD PROBABLY INVITE ITS CONTINUANCE, AND COSTS INCURRED BY THE NEW CANAL ENTITY IN THE TRANSITION PERIOD WILL PROBABLY EXCEED SAVINGS OBTAINED IN "SHEDDING."

3. IMPLICATIONS:

- ALTHOUGH PANAMA MIGHT VIEW OFFER AS U.S. "STRINGS ATTACHED" TO A PORTION OF THE COMPENSATION PACKAGE, FUND MIGHT HELP DETER PANAMA FROM RAISING ISSUE OF "REPARATIONS" DURING NEGOTIATIONS.
- ALTHOUGH EFFORTS TO SEEK APPROPRIATIONS COULD GENERATE ADDITIONAL CONGRESSIONAL OPPOSITION, A FAVORABLE REACTION IS EXPECTED.

C. A MILITARY ASSISTANCE FUND INITIALLY OF \$1 MILLION PER YEAR AND SUBJECT TO PERIODIC REVIEW TO MAINTAIN THE PANAMANIAN NATIONAL GUARD'S ABILITY TO FULFILL ITS DEFENSE ROLE. SUCH A FUND AND ITS IMPLEMENTATION CAN BE EXPECTED TO INCREASE AND IMPROVE COMMUNICATION BETWEEN U.S. AND PANAMANIAN MILITARY FORCES. SUCH COMMUNICATION WILL FOSTER A CONVERGENCE OF POINTS OF VIEW AND PROMOTE ACCEPTANCE BY PANAMA OF A CONTINUING U.S. MILITARY PRESENCE AND COMMON

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CONCEPTS FOR DEFENSE OF THE CANAL.

1. SOURCE OF FUNDS. CONGRESSIONAL APPROPRIATIONS.

2. THE FUND WOULD:

- BE ADMINISTERED THROUGH ARRANGEMENTS SIMILAR TO THOSE NOW USED FOR THE U.S. SECURITY ASSISTANCE PROGRAM TO PANAMA.
- HELP PANAMA ATTAIN THE CAPABILITY TO ASSIST U.S. FORCES IN THE DEFENSE ARRANGEMENTS AGREED TO IN THE TREATY.
- NOT BE SO LARGE AS TO BUILD THE CAPABILITY OF THE NATIONAL GUARD BEYOND THE LIMITS ACCEPTABLE TO U.S. POLICY OBJECTIVES.
- BE DESIGNATED TO PROVIDE LEVERAGE FOR NEGOTIATING PURPOSES AND TO INDUCE CLOSE COOPERATION AND HARMONY BETWEEN THE TWO FORCES.

3. IMPLICATIONS.

--THE FUND WOULD REPLACE THE EXISTING MAP PROGRAM.

--THE FUND COULD BE THE NUCLEUS OF A PROGRAM WHICH MIGHT LEAD TO A CONTINUED U.S. DEFENSE ROLE BEYOND THE TREATY'S LIFE.

--THE RATIONALE FOR PAYING THIS FROM APPROPRIATION IS THAT THE U.S. HAS STRATEGIC AND SECURITY INTERESTS IN PANAMA WHICH ARE INDEPENDENT FROM THE CANAL. CANAL USERS WOULD OBJECT TO PAYING FOR THE MAINTENANCE AND AUGMENTATION OF THESE INTERESTS.

D. A MINIMUM GUARANTEED PAYMENT TO PANAMA IN THE EVENT THE CANAL IS CLOSED FOR ITS CAPACITY TO ACCOMMODATE THE TRANSIT OF VESSELS IS IMPAIRED FOR MORE THAN 60 CONSECUTIVE DAYS FOR ANY REASON OUTSIDE THE CONTROL OF THE GOVERNMENT OF THE REPUBLIC OF PANAMA.

1. SOURCE OF FUNDS: CONGRESSIONAL APPROPRIATION OR CANAL ENTITY BORROWING AUTHORITY AS DETERMINED BY THE U.S. CONGRESS.

2. THE MINIMUM PAYMENT WOULD:

--PROVIDE \$3 MILLION TO PANAMA FOR THE QUARTER IN WHICH SUCH A CLOSING OR IMPAIRMENT OCCURS, PLUS \$3 MILLION FOR EACH OF THE NEXT SEVEN SUCCEEDING QUARTERS IN WHICH THAT CONDITION PERSISTS, UNLESS BY VIRTUE OF RESUMPTION OF TRAFFIC THE PAYMENT TO WHICH PANAMA WOULD BE ENTITLED BY THE TERMS OF PARAGRAPH A ABOVE IS GREATER.

--NOT BE PROPOSED TO PANAMA, BUT COULD BE CONSIDERED FOR USE IN RESPONSE TO A PANAMANIAN QUERY ABOUT THE EFFECT ON COMPENSATION OF A TRAFFIC INTERRUPTION.

--NOT BE SO HIGH AS TO BE AN INCENTIVE TO INEFFICIENCY OF CANAL OPERATIONS.
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--NOT BE A PERMANENT "FLOOR" ON THE BASIC ANNUITY.

--WOULD BE CONSISTENT WITH THE \$10 MILLION GUARANTEE PAYMENT IN THE EVENT OF CANAL CLOSURE PROPOSED IN THE 1971 TREATY NEGOTIATIONS.

3. IMPLICATIONS.

--THE PAYMENT WOULD REPRESENT MORE THAN A MERE TOKEN PAYMENT CONSIDERING THE CURRENT \$2.3 MILLION ANNUITY.

--PANAMA WOULD PROBABLY WANT AS A MINIMUM A TREATY PROVISION SIMILAR TO WHAT WAS AN ELEMENT OF THE 1971 DRAFT.
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INFO OCT-01 SS-14 ISO-00 SAB-01 L-01 INR-05 INRE-00 SSO-00

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E. THE TOTAL REVENUES DERIVED FROM THE COMPANY'S "PROFITABLE" COMMERCIAL TYPE ACTIVITIES TO BE TRANSFERRED TO PANAMA ARE SOME \$23 MILLION. IF OPERATED AS CONVENTIONAL COMMERCIAL ACTIVITIES, THOSE ACTIVITIES HAVE A POTENTIAL FOR A SIGNIFICANT PROFIT MARGIN. THE ABOVE FIGURES DO NOT INCLUDE PANAMA CANAL COMMISSARIES AND FOOD SERVICE UNITS WHICH ARE NOT NOW "PROFITABLE" AND WILL PROBABLY NOT BE "PROFITABLE" IN THE FUTURE.

F. PANAMA WILL SHARE IN THE COSTS OF REOPENING THE CANAL IN THE EVENT OF A TEMPORARY CANAL CLOSURE.

1. SOURCE OF FUNDS: OUT OF FUTURE ANNUITY PAYMENTS.
2. PANAMA'S SHARE WOULD:
 - COME FROM ANNUITY PAYMENTS SUBSEQUENT TO THE CANAL'S REOPENING.
 - BE DETERMINED ACCORDING TO A FORMULA TO BE AGREED UPON IN THE TREATY.
3. IMPLICATIONS.
 - SINCE THE BENEFITS AND RESPONSIBILITIES OF THE CANAL OPERATION WILL BE SHARED UNDER THE NEW PARTNERSHIP ARRANGEMENT, PANAMA SHOULD SHARE IN THE COSTS OF REOPENING THE CANAL IN THE EVENT OF A CLOSURE.
 - THERE MAY BE COMPLICATIONS IN DEFINING "COSTS" OF CANAL REOPENING.

II. THE NEW CANAL ENTITY WILL INCUR COSTS DURING THE TRANSITION PHASE. THESE COSTS WILL BE FINANCED AS FOLLOWS:
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A. A CANAL ADMINISTRATION TRANSITION FUND ESTIMATED INITIALLY AT APPROXIMATELY \$55 MILLION FOR EXPENDITURES OVER A PERIOD OF THREE TO FIVE YEARS. AN ADDITIONAL \$50 MILLION MAY BE NECESSARY IN ORDER TO FINANCE THE FIRST YEAR'S PAYMENT TO PANAMA IN THE EVENT AN APPROPRIATE TOLL RATE INCREASE CANNOT

BE IMPLEMENTED IMMEDIATELY UPON ENTRY INTO FORCE OF THE TREATY.

1. SOURCE OF FUNDS: CONGRESSIONAL APPROPRIATIONS OR CANAL ADMINISTRATION REVENUES.

2. THE TRANSITION FUND WOULD:

--BE USED TO COVER SUCH ONE-TIME EXPENSES AS SERVERANCE PAY (SOME \$4 MILLION), RELOCATION OF FACILITIES (\$20 MILLION -- THIS FIGURE FOR RELOCATION IS CONSERVATIVE. ACTUAL AMOUNT MAY BE SUBSTANTIALLY GREATER), INITIAL TRAINING OF PANAMANIAN (\$2 MILLION), REPATRIATION AND OUT-PLACEMENT PERSONNEL COSTS (\$4 MILLION), TERMINAL LEAVE PAYMENT (\$6 MILLION) AND POSTPONED SAVINGS THAT THE CANAL ADMINISTRATION CANNOT IMMEDIATELY REALIZE FROM ACTIVITIES TO BE SHED (\$19 MILLION). THE \$50 MILLION FOR FINANCING OF THE FIRST YEAR ANNUITY PAYMENT WOULD BE AVAILABLE TO THE CANAL ADMINISTRATION TO PAY PANAMA AS THE LATTER "EARNED" IT, POSSIBLY ON A QUARTERLY BASIS, AFTER ENTRY INTO FORCE OF THE TREATY.

--BE ADMINISTERED BY THE ENTITY.

3. IMPLICATIONS.

--WHILE RECOGNIZING THAT THE FUNDS FOR THE FOREGOING ACTIVITIES COULD BE REPAID TO THE U.S. FROM CANAL ADMINISTRATION REVENUES OVER THE LIFETIME OF THE TREATY PROVIDED TOLLS SENSITIVITY PERMITS A GREATER TOLL INCREASE, THE PREFERRED SOURCE OF FUNDS IS CONGRESSIONAL APPROPRIATIONS.

--POTENTIAL CONGRESSIONAL OPPOSITION IS EXPECTED TO BE LIGHT TO MODERATE IN VIEW OF THE "ONE-TIME" NATURE OF THE EXPENDITURES NEEDED TO MODERNIZE THE U.S.-PANAMANIAN RELATIONSHIP.

THE FOLLOWING FINANCIAL STATEMENT SUPPORTS THE DRAFT POSITION PAPER.

NOTE: # REPRESENTS PLUS SIGN IMI PLS SIGN

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(IN MILLIONS OF DOLLARS)

NET OPERATING RESULTS, FY 1975	0.0
CONSIDERATIONS BEFORE TREATY IMPACT:	
PROVISION FOR ADDITIONAL DEPRECIATION	-10.0
LOSS OF TRAFFIC TO SUEZ	A-12.0
REVENUE DEFICIENCY BEFORE IMPACT OF TREATY	-22.0

POTENTIAL SAVINGS FROM TREATY IMPACT:

LOSS ACTIVITIES OF COMPANY TRANSFERRED TO PANAMA
 (COMMISSARIES, FOOD UNITS, THEATERS, BOWLING
 ALLEYS) #2.5
 C.Z. GOV'T. ACTIVITIES TRANSFERRED TO PANAMA, NET
 (POLICE, CUSTOMS, IMMIGRATION, POSTAL, ETC.) #11.3
 GENERAL AND ADMINISTRATIVE COSTS #5.0
 MAINTENANCE OF THATCHER FERRY BRIDGE #0.8
 WAIVER OF CURRENT ANNUITY PAYMENT #0.5

SUB-TOTAL #20.1

POTENTIAL INCREASED COSTS (OR LOSSES) FROM TREATY IMPACT:

PROFITABLE ACTIVITIES TRANSFERRED
 (PIERS; PORT PILOTAGE, TUG & LAUNCH SERVICE; ETC.) -3.8
 ADDITIONAL GUARD FORCE -2.0
 INCREASED EMPLOYEE COMPENSATION -10.0

SUB-TOTAL -15.8

NET POTENTIAL SAVINGS ((20.1 - 115.8) #4.3
 ESTIMATED COMPENSATION TO REPUBLIC OF PANAMA -50.0
 TOTAL REVENUE DEFICIENCY RESULTING FROM TREATY -45.7
 TOTAL REVENUE DEFICIENCY AFTER IMPACT OF TREATY -67.7.
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